

P ICTET GROUP

EU Sustainable Finance Disclosure Regulation

Sustainability-related product
disclosure

DECEMBER 2022

No sustainable investment objective

This financial product promotes environmental or social characteristics but does not have as its objective sustainable investment.

Environmental and Social Characteristics (E/S characteristics)

The mandate “High Quality Responsible Equity” promotes environmental and social characteristics by adopting a holistic approach combining the monitoring of issuers’ environmental and social characteristics, an analysis of their level of sustainability risks, and the implementation of clear screening criteria and portfolio construction rules.

The mandate considers and, where possible, mitigates adverse impacts of its investments on society and the environment through a combination of portfolio management decisions, active ownership activities, and by excluding issuers associated with controversial conduct or activities.

In particular, the mandate excludes issuers that are in severe breach of international norms and/or have significant revenues from activities with adverse impacts on society or the environment, and monitors level of sustainability risks through a broad range of ESG characteristics such as company’s ESG Risk, quality of Corporate Governance and Carbon intensity.

For more details on sustainability indicators used to measure the ESG characteristics, please refer to the section “Methodologies for environmental or social characteristics”

Investment strategy

The strategy invests mainly in listed shares or share certificates (up to 45 shares) of companies that have demonstrated their ability to create value, have stable balance sheets and can therefore be considered “High Quality” companies. The strategy is globally diversified in terms of areas, sectors and geographies and takes into account sustainability risks and promotes environmental and/or social characteristics. The Investment Manager uses its proprietary ESG scorecard while selecting issuers. The analysis is based on four pillars: Corporate Governance (e.g., remuneration, board composition), Product and services (e.g., % of Green revenues, revenues from high ESG risk activities), Operational risks (e.g. Carbon Intensity) and Controversies (e.g. social supply and/or chain incidents, business ethics incidents).

The investment manager assesses company decision-making processes and controls, as well as how management balances the interests of shareholders, employees, suppliers, customers, the community and other stakeholders. Assessed areas may include:

- the composition of the executive team and board of directors, including the experience, diversity and distribution of roles, along with succession planning and board evaluation
- executive remuneration, including short term and long-term incentives and their alignment with investor interests
- risk control and reporting, including auditor independence and tenure
- shareholder rights, including one-share-one-vote and related-party transactions

The mandate’s binding elements include the exclusion of issuers that

- are involved with nuclear weapons from countries that are not signatories to the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) and other controversial weapons;
- derive a significant portion of their revenue from activities detrimental to society or the environment, such as thermal coal extraction and power generation, unconventional oil and gas exploration and production, conventional oil and gas production, nuclear power generation, conventional weapons and small arms, military contracting weapons and weapon-related products and services, tobacco production, adult entertainment production, gambling operations, genetically modified organisms development/growth, pesticides product/retail; or

- severely violate the UN Global Compact principles on human rights, labour standards, environmental protection and anti-corruption.

Proportion of Investments

The Mandate aims to have a minimum of 90% of its investments aligned with the E/S characteristics promoted. The mandate invests mainly in listed shares (direct exposure). The mandate's other investments (not aligned with E/S characteristics) include cash positions and may include derivatives and structured products for hedging purposes. Should the mandate use derivatives, they will not be used to attain the E/S characteristics promoted by the Investment Manager.

Monitoring of E/S characteristics

To ensure ongoing compliance, the bank monitors E/S characteristics implemented in the investment process by pre- and post-trade checks against the binding elements. Those checks are performed by Portfolio Management as well as Investment Risk teams.

Methodologies for E/S characteristics

The indicators that are used to measure the E/S characteristics promoted by this mandate include:

- exposure to issuers that severely violate the UN Global Compact principles on human rights, labour standards, environmental protection and anti-corruption.
- exposure to issuers that are involved with nuclear weapons from countries that are not signatories to the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) and other controversial weapons or derive a significant portion of their revenue from activities detrimental to society or the environment, such as thermal coal extraction and power generation, unconventional oil and gas exploration and production, conventional oil and gas production, nuclear power generation, conventional weapons and small arms, military contracting weapons and weapon-related products and services, tobacco production, adult entertainment production, gambling operations, genetically modified organisms development/growth, pesticides product/retail.

Data sources and processing

We have developed a proprietary ESG Scorecard that provides a focused view of both ESG risks and opportunities. Our ESG Scorecard is based on a curated set of the most material data points, across four pillars: Corporate Governance, Products & Services, Operational Risks, and Controversies. The scorecard collects ESG data from various third-party providers on specific datasets and internal proprietary analysis.

ESG data providers are subject to a regular review of their business model, research process, technical expertise, data coverage, quality assurance mechanisms, and prevention of conflicts of interests.

Once ESG data is integrated into our systems, we conduct quality controls on an on-going basis to detect and address issues that may negatively affect data usage.

Limitations to methodologies and data

Key limitations to our methodologies may include a lack of data coverage and/or quality.

To overcome these issues, the Pictet Group ESG Data Committee reviews periodically current and potential ESG data providers and serve as escalation point for remediation to data quality issues or issues related to lack of coverage.

The Investment Manager relies on various sources of information to analyse and monitor potential investments (including third party data and internal proprietary analysis) and to ensure compliance with defined binding elements and exclusions. The Investment Manager retains full discretion over the implementation of exclusion criteria and reserves the right to deviate from third-party information on a case-by-case basis in instances where it is deemed incorrect or incomplete, for example in the case a company is undergoing

a sustainable transformation. In such cases, an exemption to the exclusion criteria may be initiated by investment teams, must be supported by a written rationale and is subject to validation by senior members of the investment platform. Once validated, the exemption needs to be monitored on an on-going basis.

Due diligence

Our due diligence process of issuers covers the following areas:

- The clarity and robustness of the issuer's long-term strategy
- The functioning and calibre of governance structures and effective leadership
- The financial strength and performance of issuers and the fair valuation of underlying securities.
- Sustainability risks & opportunities and adverse impacts of potential investments on society and/or the environment.

Engagement policies

Active ownership through engagement and proxy voting is intended to improve the long-term sustainability of the businesses the bank invests in on behalf of investors in discretionary portfolios.

In Pictet Wealth Management, we consider it is our fiduciary duty to engage selected corporate issuers in order to positively influence a company's ESG performance and to protect or enhance the value of our clients' investments. At this stage engagement is not promoted as part of the E/S characteristics of this mandate.

Please refer to [Wealth Management Responsible Investment Policy](#) for more information on our active ownership activity.

Designated reference benchmark

No reference benchmark has been designated for the purpose of attaining the environmental and/or social characteristics.